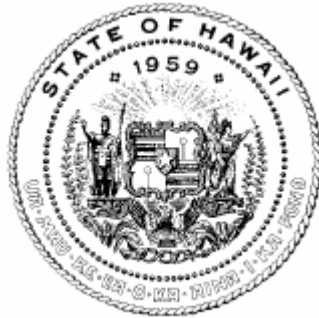


REPORT TO THE TWENTY- FOURTH LEGISLATURE

REGULAR SESSION OF 2007

PILOT PROGRAM TO TRAIN APPRAISERS TO USE INCOME APPROACH TO SET
LEASE RENT RATES FOR STATE AGRICULTURAL LEASE REOPENINGS



Prepared by

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

In response to House Concurrent Resolution 262 House Draft 1, Regular Session of 2005

Honolulu, Hawaii

November 2006

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PURPOSE

House Concurrent Resolution (HCR) 262 House Draft (HD) 1, was introduced during the 2005 Legislative Session and subsequently adopted, at the urging of the Hawaii Farm Bureau (Farm Bureau), requesting the Department of Land and Natural Resources (DLNR) to establish a training program in conjunction with the local real estate appraisers' national organization as part of their professional educational seminars, to train real estate appraisers to use the income capitalization approach to set lease rent rates for State agricultural lease reopenings, and to report its findings and recommendations, including the lease rent amounts resulting from using this methodology, to the Legislature no later than 20 days prior to the convening of the Regular Session of 2007.

HCR 262 HD1 reflects the State's interest that agricultural lands be used productively and in a reasonable way to emphasize sustainability and preservation of State agricultural land. The Farm Bureau believes continuing the current practice of determining lease rents based on land value via the sales comparison approach will increase lease rents to potentially unaffordable levels, given the recent dramatic escalation of real estate values.

POINTS MADE AS TO WHY THE TRAINING IS NEEDED

HCR 262 HD1 asserted that appraisers lack the knowledge or understanding necessary to use the income approach, which factors in the agricultural yield of farmed land. HCR 262 HD1 further asserted that there is a shortage locally of appraisers who are capable of using the income capitalization approach. Thus, the Concurrent Resolution reports training is needed to encourage appraisers to use the income approach to establish reasonable lease rent rates for State agricultural lease reopenings.

PLANNING AND ORGANIZING TRAINING

As HCR 262 HD1 stipulated, the training program was to be established in conjunction with the local real estate appraiser's national organization, the Hawaii Chapter of the Appraisal Institute (HCAI), which sponsors much of the education related to the MAI designation and state licensing. MAI is a nationally recognized designation for appraisers demonstrating they have achieved a level of experience and education in the profession. Members that are undesignated include appraisers that are working toward designation or professionals who work in the real estate field who desire membership in the Appraisal Institute but do not wish to pursue designation.

HCAI was requested by DLNR to assist in implementing the pilot training program. However, at the time of adoption of HCR 262 HD1, HCAI had already booked their educational offerings for 2005 and for the spring of 2006. Also, it was concluded that any additional class would be in conflict with their sponsored classes if held in the same month. The American Society of Farm Managers and Rural Appraisers (ASFMRA) assisted in gaining continuing education credits from the Department of Commerce and Consumer Affairs, which was deemed critical to the success of the training program. Tony Correia, a respected agricultural appraiser, was contacted and retained to teach the class.

During the months leading up to the class, Mr. Correia requested DLNR to acquire data to be used for case studies during the class. Mr. Correia indicates the University of California, Davis (UC Davis) maintains a comprehensive database containing current revenue and expense data from different agricultural operations throughout the State of California. Unfortunately, the University of Hawaii (UH) does not have a database with the same level of detail as that of UC Davis. Mr. Correia tried contacting the Agricultural Economics Program at UH but couldn't get the data required for a good case study. DLNR assisted in getting income and expense data and asked the Farm Bureau for assistance.

TRAINING SEMINAR

Attendance was excellent for the Agricultural Lease Rent Training Seminar (Seminar) held March 31, 2006. An estimated 90 people attended, primarily local appraisers from various private firms and organizations statewide, including a sizable government contingent from the City and County of Honolulu's Real Property Tax Assessment Office. Representatives from the Department of Agriculture (DOA) also attended. One farmer attended, however no representative from the Farm Bureau attended. It should be noted that the Seminar occurred during a period of torrential rains, which likely impacted attendance by farmers.

The Seminar included basic valuation methodology and theory. A power point slide show was used for graphics and other visual aids. Attendees were allowed to ask questions throughout the Seminar.

There was ample discussion as to obstacles for local appraisers to perform an income approach on agricultural leases. Despite some of the language in HCR 262 HD1, commercial appraisers can generally perform an income approach given adequate data. Most of the income approach problems stem from a lack of relevant data. It appears that farmers may have historically been hesitant to release such data for fear that it may result in adverse tax consequences. Over the course of preparation for the Seminar, Mr. Correia and DLNR attempted to gain actual farm revenues and expense data from the Farm Bureau, but were unable to gain usable data.

RECOMMENDATION

In order to conduct appraisals using the income capitalization approach, there should be an adequate agricultural database with current market data and sufficient detail that can serve as a resource for the appraisers. The information supplied by UH is fairly general and dated.

Perhaps an agricultural research entity could be asked to assist in establishing such a database with relevant and current market data.

Accurate and reliable agricultural operation data needs to be provided by tenants, thus giving the Hawaii appraisal community the tools to do their job adequately. If these goals are accomplished via a joint effort, then consistency and fairness in agricultural rents can be achieved.